UNITED STATES DEPARTMENT OF AGRICULTURE
FARMERS HOME ADMINISTRATION
Washington 25, D. C.

Farm Ownership Loans and Soil and Water Conservation Loans

General Information The Farmers Home Administration is an agency in the U. S. Department of Agriculture. The insured farm loan program is designed to make available to farmers and ranchers a supplemental source of credit and to encourage the use of private capital in place of direct Government loans. Through the Farmers Home Administration, private lenders can advance funds to eligible farmers to buy land and to improve their farms. Loans are made only to farmers unable to obtain the necessary credit through usual credit channels at reasonable rates and terms. A borrower is required to refinance his insured loan whenever he is able to obtain a noninsured loan on reasonable rates and terms.

Payments on principal and interest are fully guaranteed by the U. S. Government. All loan-making and servicing operations are handled by the Farmers Home Administration.

Several safeguards are used to protect the Government's interest. Before loans are made the applications are reviewed by the local county committees of the Farmers Home Administration. These committees are composed of three local persons, at least two of them farmers, whose reputations for sound judgement are well established. No loan is made unless the committee certifies that the applicant is eligible and has a reasonable likelihood for success. Generally, a loan will be secured by a mortgage on the borrower's farm; however, selected items of chattel property may be used to secure soil and water conservation loans.

The loan instruments held by the lender are transferable and can be used for collateral.

Types of Loans Two types of insured farm loans are available. Both types are made at 4-1/2% interest, of which 3-1/2% net goes to the lender with the Government retaining 1% as a service fee.

(1) Farm ownership loans

These loans are used to help tenants purchase a farm of their own, to help small farmers develop or enlarge their farms into economic units and to finance, on family-type farms, the construction and repair of farm houses and other essential farm buildings. Insured farm ownership loans are limited to 90% of the fair and reasonable value of the farm. In addition these loans are limited by law to an amount not to exceed the average value of farms in the local area and generally will range up to $20,000. The maturities for these loans will normally be forty years. While these loans are always secured by a first mortgage, under the Bankhead-Jones Farm Tenant Act, as amended, the Government is the mortgagee. The lender holds only the insured note while the Farmers Home Administration will hold the mortgage and any property insurance policies, title insurance policies, and opinions of title.

(2) Soil and Water Conservation Loans

These loans may be advanced to pay cash costs of materials, equipment and services directly related to soil conservation; water development, conservation and use; and drainage. They may be made to individuals in amounts up to $25,000 and to approved associations in amounts up to $250,000. The maturities for these loans will range from 2 to 20 years. These loans may be secured by less than a first mortgage on real estate and by liens on selected chattels. In the case of these loans also, the U. S. Government is the mortgagee. The lender's investment is fully guaranteed.

<u>General Loan Information</u> Some of the insured loans will be repayable in periods from 2 to 10 years. When a loan has a term extending more than 5 years, the lender has the option, within the 6th year, of assigning the loan to the Government and receiving full payment in cash. After the initial 5-year period has elapsed, if the lender prefers, the Government may offer him a repurchase agreement for an additional period, or the lender may hold the insured loan until it is refinanced or paid in full by the borrower. The Farmers Home Administration collects all payments from the borrower and transmits to the lender by United States Treasury check, amounts to be applied on the note. Such payments are applied first to interest accrued on the note as of the date of the U. S. Treasury check and second to principal. Interest and amortization payments are due annually as of January 1, except that a borrower is permitted to pay on his loan at any time without penalty. If partial payments aggregate $200 or more, the money is sent on to the lender - if less than $200, the funds are held and remitted at the end of the calendar quarter.

The holder of the note is kept currently advised of the status of the account and proper application of the payments thereon.

If a borrower is in default on an installment on the note, the Farmers Home Administration will pay the current holder of the note the installment due and unpaid. When a borrower is in default for any reason, the Government may take over the insured loan and pay the lender in cash the full amount of unpaid principal and interest.

<u>Lender Participation</u> Any lending institution interested in investing funds in these guaranteed loans should write to R. B. McLeaish, Administrator, Farmers Home Administration, Washington 25, D. C., or contact the State Director, Farmers Home Administration, in the state where the institution is located. The Administrator of the Farmers Home Administration will acknowledge the lender's commitment and will fulfill same as loans are approved and processed. If a personal call from a National Office representative is desired by a lender, the request will be fulfilled.

Holders of notes should address their questions concerning payments, assignments, or related matters to the Finance Office, Farmers Home Administration, U. S. Department of Agriculture, St. Louis 2, Missouri.